

Message Text

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ACTION SS-25

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AMEMBASSY LISBON

C O N F I D E N T I A L BONN 18895

EXDIS

E.O. 11652: GDS
TAGS: PINT ECON PO IMF
SUBJECT: SPD COMMENTS ON PORTUGAL AND THE IMF

REF: LISBON 8023

1. AN SPD OFFICIAL WHO HAS JUST VISITED PORTUAL HAS EXPRESSED SPD CONCERN TO US ABOUT THE EFFECT OF IMF DEMANDS ON THE PORTUGUESE ECONOMY.
 2. THE OFFICIAL, WHO SAW SOARES, ALEGRE, JAIME GAMA AND CONSTANZIO, AMONG OTHERS, SAID THAT ALL OF THEM EXPRESSED CONSIDERABLE CONCERN THAT FULFILLMENT OF THE IMF DEMANDS WOULD DAMAGE THE CHANCES FOR PORTUGUESE DEMOCRACY.
 3. THE PORTUGUESE ARGUMENT, AS THE SPD OFFICIAL PASSED IT TO US, WAS THAT COMPLIANCE WITH IMF DEMANDS WOULD CUT THE PORTUGUESE GROWTH RATE TO THREE PERCENT NEXT YEAR, WOULD RESTRICT IMPORTS OF FOOD AND INDUSTRIAL MACHINERY, AND WOULD REQUIRE AN INCREASE IN INTEREST RATES. THE COMBINATION OF THESE WOULD ALLEGEDLY CURTAIL PORTUGUESE ECONOMIC PROGRESS JUST AS THE ECONOMY
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IS BEGINNING TO SHOW REAL GROWTH AFTER SEVERAL TURBULENT YEARS.

4. THE OFFICIAL SAID THAT, AS THE SITUATION WAS EXPLAINED, PORTUGUESE WORKERS SUFFERED A NET DECLINE IN THEIR STANDARD OF LIVING OF 15 PERCENT LAST YEAR. IF THIS PERSISTS, IT WOULD BE IMPOSSIBLE TO SUSTAIN LABOR

SUPPORT OF SOARES' PROGRAM. IN ADDITION, THE SPD OFFICIAL SAID THAT JAIME GAMA HAD RECENTLY VISITED MAJOR MILITARY COMMANDS AND HAD EXPRESSED CONCERN ABOUT ARMED FORCES RESTIVENESS CAUSED IN PART BY EQUIPMENT SHORTAGES.

5. THE SPD OFFICIAL SAID THAT A PAPER WAS BEING PREPARED FOR PARTY CHAIRMAN BRANDT AND FOR CHANCELLOR SCHMIDT ADVISING THEM OF THE PORTUGUESE CONCERNS. THE OFFICIAL DID NOT, OF COURSE, KNOW HOW SCHMIDT AND BRANDT WOULD REACT.

6. THE SPD OFFICIAL ALSO OBSERVED THAT SOARES WAS ATTEMPTING TO GAIN WIDER POLITICAL SUPPORT FOR HIS PROGRAM AND THAT SA CARNEIRO'S RESIGNATION MAY HAVE MADE THIS EASIER.

7. COMMENT: WE ARE NOT SURE WHAT TO MAKE OF THIS INFORMATION, WHICH WAS PASSED TO US WITH THE OBVIOUS INTENT THAT WE SHOULD TAKE IT INTO SERIOUS CONSIDERATION BUT WHICH STILL REPRESENTS ONLY A WORKING-LEVEL VIEW.

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WE NOTE, HOWEVER, THAT THE FRG HAS STEADFASTLY TIED DISBURSEMENTS OF ITS PORTION OF THE \$1.2 BILLION
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FINANCIAL ASSISTANCE PACKAGE FOR PORTUGAL TO IMPLEMENTATION OF AN IMF STABILIZATION PROGRAM. IN DISCUSSION ON PORTUGAL YESTERDAY WITH FINANCE MINISTRY SOURCE, THERE WAS NO INDICATION THAT THIS CAVEAT WOULD BE DROPPED OR EVEN RECONSIDERED.

8. WE WOULD APPRECIATE ANY ASSESSMENT THAT LISBON OR THE DEPARTMENT MIGHT WISH TO GIVE US TO PASS TO THE SPD IN CONJUNCTION WITH WHATEVER REPORT THE SPD OFFICIAL MAY PRODUCE.

9. WE ASSUME THAT THE PORTUGUESE PURPOSE IS IN ACCORDANCE WITH LISBON'S EXPECTATION IN REFTTEL.
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